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GOVERNOR

STATE OF MICHIGAN  
**OFFICE OF FINANCIAL AND INSURANCE SERVICES**  
DEPARTMENT OF CONSUMER & INDUSTRY SERVICES  
DAVID C. HOLLISTER, DIRECTOR

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COMMISSIONER

**DATE:** August 23, 2005

**LETTER NO.:** 2005-CU-14

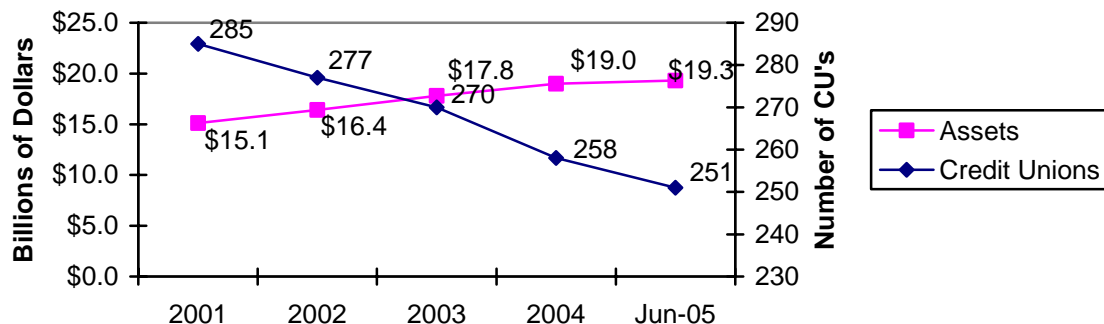
**TO:** The Board of Directors and Management of Michigan State-Chartered Credit Unions

**SUBJECT:** 2005 Second Quarter Financial Results

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the June 30, 2005 call report filings. The following information and analysis does not include CenCorp Credit Union.

**Consolidation Continues**

The number of Michigan state-chartered credit unions declined by five during the second quarter of 2005. Asset continued to grow, but at a rate of only 1.45% for the quarter ending June 30, 2005.

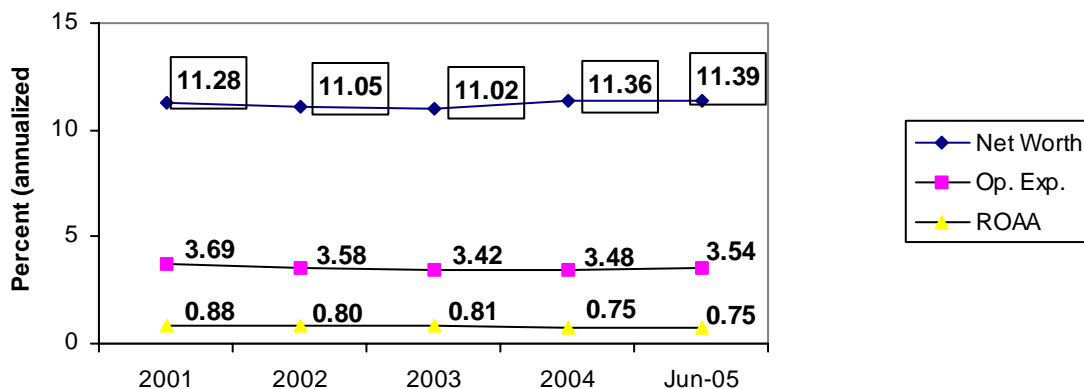


Forty-one credit unions reported a decline in assets greater than 5% at June 30, 2005.

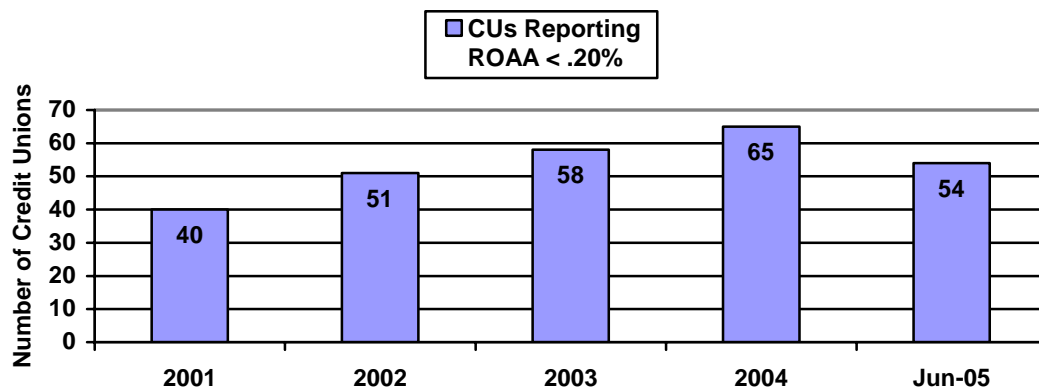
**Net Worth Remains Strong, Growth Limited by Required Investment Reserves**

Aggregate net worth increased from 11.31% at March 31, 2005 to 11.39% at June 30, 2005. Operating expense and return on average assets remained stable during the second quarter of 2005.

While earnings remained steady, net worth growth was limited by the impact of required Available for Sale (AFS) reserves for credit union investments. Declining investment market values required approximately 17% of year to date net income to appropriately reserve for unrecognized losses. These changes in market value are driven primarily by the rising interest rate environment and illustrate the effects on long-term fixed rate investments. Management must actively monitor and manage interest rate risk to protect earnings.



Despite an increase in operating expenses, ROAA has remained stable primarily due to loan growth significantly outpacing asset growth. Loans grew at an annual rate of 10.9% during the quarter ended June 30, 2005. Fifty-four credit unions reported an ROAA of less than .20% at June 30, 2005.



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**Asset Quality Remains Sound**

The aggregate delinquency ratio increased slightly to 1.14% during the quarter, while the net charge-off ratio remained stable. The number of credit unions reporting adverse trends in these areas increased during the second quarter of 2005.

**Conclusion**

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and taking appropriate steps to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management. The stresses evident in the June 2005 statistics highlight the continuing need for sound risk management practices.

Sincerely,

Roger W. Little, Deputy Commissioner  
Credit Union Division